

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

**7. Long-term obligations**

The County issues general obligation bonds and other indebtedness to provide funds for the acquisition and construction of major capital facilities. Indebtedness has been issued for governmental activities. The following is a summary of the County's long-term debt transactions for the year ended June 30, 2012:

	Balance July 01, 2011	Additions	Retirements and Repayments	Balance June 30, 2012	Current Portion
<u>Governmental activities:</u>					
Bonds and loans	\$ 37,626,835	\$ -	\$ 3,287,149	\$ 34,339,686	\$ 2,610,323
Unpaid vacation and sick pay benefits	1,654,978	878,960	962,957	1,570,981	895,000
Accrued landfill liability	2,271,148	113,504	-	2,384,652	-
Dayspring Townhomes	2,530,583	-	-	2,530,583	-
	<u>\$ 44,083,544</u>	<u>\$ 992,464</u>	<u>\$ 4,250,106</u>	<u>\$ 40,825,902</u>	<u>\$ 3,505,323</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund and certain Special Revenue Funds.

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**7. Long-term obligations (continued)**

General long-term debt for governmental activities at June 30, 2012 is composed of the following issues:

Description	Interest Rates	Date Issued	Date Series Matures	Original Issue	Outstanding
General bonded debt:					
2006 Public Improvement Bond	3.75-4.0%	2006	2022	\$ 12,475,000	\$ 9,075,000
2008 Public Improvement Bond	3.50-4.50%	2008	2028	5,600,000	4,790,000
Refunding Bond of 2009	2.0-4.375%	2009	2037	7,785,000	6,395,000
Public Improvements Bond of 2009	1.60-6.10%	2009	2030	7,700,000	7,490,000
Public Improvements Refunding Bond of 2011	2.000%	2011	2016	3,736,000	3,125,000
State loans:					
Midshore Business & Tech. Park	0.000%	2007	-	3,057,529	3,057,529
Capital projects loans:					
Chesapeake College	5.900%	1994	2014	190,000	31,350
Chesapeake College	5.506%	2000	2020	535,000	275,000
Chesapeake College	3.500%	2003	2023	155,000	100,807
				<u>\$ 41,233,529</u>	<u>34,339,686</u>
Other components:					
Long-term portion of unpaid vacation and sick pay benefits					1,570,981
Accrued landfill liability					2,384,652
Long-term obligations of Dayspring Townhomes					2,530,583
					<u>\$ 40,825,902</u>

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**7. Long-term obligations (continued)**

The annual requirements to amortize all general bonded debt and loans (excludes Midshore Business & Tech Park) at June 30, 2012 are as follows:

Fiscal Year Ending June 30	<u>Governmental Activities</u>		Total Requirement
	<u>Principal</u>	<u>Interest</u>	
2013	\$ 2,610,323	\$ 1,140,964	\$ 3,751,287
2014	2,452,615	1,081,462	3,534,077
2015	2,545,807	1,022,130	3,567,937
2016	2,668,206	959,598	3,627,804
2017	1,933,605	893,039	2,826,644
2018	1,994,061	821,426	2,815,487
2019	2,004,517	742,352	2,746,869
2020	2,099,972	665,751	2,765,723
2021	2,145,485	583,095	2,728,580
2022	2,260,998	495,416	2,756,414
2023	1,231,568	425,062	1,656,630
2024	1,135,000	371,964	1,506,964
2025	1,080,000	319,554	1,399,554
2026	1,095,000	268,139	1,363,139
2027	1,090,000	213,239	1,303,239
2028	1,075,000	157,934	1,232,934
2029	695,000	102,639	797,639
2030	715,000	61,616	776,616
2031	60,000	19,156	79,156
2032	60,000	16,756	76,756
2033	60,000	14,281	74,281
2034	65,000	11,731	76,731
2035	65,000	8,969	73,969
2036	70,000	6,125	76,125
2037	70,000	3,063	73,063
	<u>\$ 31,282,157</u>	<u>\$ 10,405,461</u>	<u>\$ 41,687,618</u>

The County received loans from the Department of Housing and Community Development, a state agency, which were used by an agent to construct housing for low-income families (the Dayspring Townhomes project). Development, construction and equipping of the project was financed in part by a long-term mortgage in the amount of \$2,530,583 (as of June 30, 2012) from the DHCD. The related deed of trust note calls for interest at a rate equal to the Maryland State Bonds which were issued to provide the funding for the program. Repayment



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**7. Long-term obligations (continued)**

of principal and any accrued interest are deferred in perpetuity until the occurrence of any of the following events:

- a. The project is no longer used to provide housing for low income households;
- b. The refinancing, sale, transfer or conveyance of the project;
- c. Any encumbrance of the project without prior written consent of the DHCD; or
- d. Any event of default.

The amount of repayment is limited to the lesser of the outstanding balance on the notes or the amount realized through sale of the property. The County cannot be required to pay any additional amounts.

On January 22, 2002, the County executed a promissory note to the Maryland Department of Business and Economic Development in the amount of \$160,000 to enable the County to finance the creation of a Business Development and Support Center. The note is interest-free, and repayment of the loan was forgiven as the Center was operated as required until the maturity date in 2012.

On March 7, 2003, the County executed two promissory notes to the Maryland Department of Business and Economic Development (DBED) totaling \$1,500,000 to enable the County to finance the development of an industrial park in Ridgely, Maryland. On July 24, 2007, the County entered into an amended agreement with DBED, whereby the loans were released and DBED provided an additional \$1,000,000 in financing to the County, for a total of \$2,500,000. On December 30, 2009, DBED invested another \$557,529 and an amended and restated investment agreement was entered into. The new funds are to be used to further develop the Midshore Business and Technology Park in Ridgely, Maryland and will be repaid as lots are sold and/or leased. There is no fixed maturity date, but the State can require immediate repayment of the entire outstanding principal, plus interest should a default occur.

On December 22, 2009, the County issued its "Public Improvements Bonds of 2009", which are taxable Build America Bonds. These bonds provide for a 35 percent federal subsidy on the total interest payments. The interest is paid to the County on a semi annual basis corresponding with the interest payment dates to the bondholders. The interest requirements for this bond in the accompanying schedule of maturities are shown at the gross amount. The remaining federal subsidy totals \$1,757,382 through the fiscal year ended June 30, 2030.



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**7. Long-term obligations (continued)**

**Board of Education**

The long-term lease obligations of the Board of Education of Caroline County are reported in note 11 - Leases.

**8. Retirement Plans**

The County maintains or participates in certain retirement plans which provide benefits to its employees. The various plans and its participants are outlined below:

<u>Employees</u>	<u>Plan</u>
Board of Education	Maryland State Retirement and Pension Systems
Library	Maryland State Retirement and Pension Systems
Caroline County: Elected officials	Maryland State Retirement and Pension Systems
Election officials	Maryland State Retirement and Pension Systems
Sheriff's Deputies	Maryland State Law Enforcement Officers' Retirement System (LEOPS)
Appointed officials and certain employees	Defined Contribution Deferred Compensation Plan
All other county employees and certain appointed officers	Caroline County, Maryland Employees' Pension Plan Caroline County Commissioners Deferred Compensation Plan

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**8. Retirement Plans (continued)**

**Caroline County, Maryland Employees' Pension Plan**

Plan description

All of the County's permanent employees who work at least 20 hours a week (excluding Library and Board of Education employees, and elected and certain appointed officials) participate in the above-titled plan, which is a single-employer, defined benefit plan. The Plan is administered by M & T Bank. A stand-alone Actuarial Valuation Report is issued annually, a copy of which may be obtained from the Office of Human Resources located at 403 South 7<sup>th</sup> Street in Denton, Maryland. The plan does not issue a separate, audited GAAP-basis pension plan report.

All employees are eligible to participate in the Plan immediately upon employment (appointed officials upon the 5<sup>th</sup> year of their anniversary date of employment). Under the provisions of the Plan, pension benefits vest 0% for the first five years of service, 50% at the end of the fifth year of service, and an additional 10% at the end of each year until 100% vesting occurs after year ten (10). Employees hired prior to September 16, 1997 are 100% vested with five years of service. Employees may retire when they have 30 years of service (25 years for police and public safety employees), or when they reach age 62 and have 5 years of service, and receive benefits equal to the following formula: 1.6% of the participant's final average earnings multiplied by the participant's years of credited service.

A member may retire with reduced benefits after attaining age 55 with 20 years of service or age 60 with 10 years of service. Police and public safety officers may retire early after age 50 and 20 years of service. Also, the pension plan provides for certain death benefits.

Related party investments

During the fiscal year, and as of June 30, 2012, the Plan held no securities issued by the County or other related entities.

Funding policy

The County pays for the total cost of the Plan; no contributions are required of members. The County is required to contribute at an actuarially determined rate, using the entry age normal cost funding method, applied on an aggregate basis; the current rate is 17.39% of annual covered payroll.

Funding status and progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 65.24% funded. The actuarial accrued liability was \$21,620,665 and the actuarial value of assets was \$14,105,253, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,515,412, equal to 106.45% of annual covered payroll. The schedule of funding progress is presented in the required supplementary information following the notes to the financial statements.

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**8. Retirement Plans (continued)**

**Caroline County, Maryland Employees' Pension Plan (continued)**

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation to the PERS (Public Employees Retirement System) for the current year were as follows:

Annual required contribution (ARC)	\$ 1,121,819
Interest on net pension obligation	(218,414)
Adjustment to annual required contribution	246,656
Annual pension cost	1,150,061
Contributions made	(875,000)
Decrease in net pension prepaid	275,061
Net pension obligation/(prepaid) at beginning of year	(2,912,189)
Net pension obligation/(prepaid) at end of year	\$ (2,637,128)

The annual required contribution for the current year was determined as part of the July 1, 2011, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.5% per year. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll, using a closed period, level dollar amortization method. The remaining amortization period at July 1, 2011, was 24 years.

Trend information

Historical trend information for the County PERS is presented below:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/ (Prepaid)
2010	\$ 846,597	91.90%	\$ (3,097,934)
2011	\$ 960,745	80.67%	\$ (2,912,189)
2012	\$ 1,150,061	76.08%	\$ (2,637,128)



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**8. Retirement Plans (continued)**

**Maryland State Retirement and Pension Systems**

The State of Maryland provides the following retirement plans in which certain County employees are participants:

Employees Retirement and Pension System – (Employees System)  
Teachers Retirement and Pension System – (Teachers System)  
Law Enforcement Officers' Pension System – (LEOPS)

The following groups of employees participate in one of the statewide contributory systems of the State of Maryland:

Board of Education - regular employees	Employees System
Board of Education – teachers	Teachers System
Library	Teachers System
Caroline County:	
Election officials	Employees System
Elected officials	Employees System
Certain retired personnel	Employees System
Sheriffs' deputies	LEOPS

**Plan description**

The Employees System, the Teachers System and LEOPS are multiple-employer, cost sharing, defined benefit public retirement systems sponsored by the Maryland State Retirement and Pensions System and were created by the Maryland General Assembly. The State Retirement and Pension System of Maryland issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

A member may retire with full benefits after 30 years of creditable service (25 years for LEOPS) regardless of age or at various ages with specified years of eligibility service for reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating from the retirement system prior to specified retirement age are refunded their accumulated contributions plus earned interest or may defer receipt of accumulated contributions until age 60. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of creditable service and average final compensation.

The State Personnel and Pensions Article requires active members to contribute to the Systems at the rate of 5% or 7% (6% for LEOPS) of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ended June 30, 2012 of 33.09% of covered payroll, is established by annual actuarial valuations.

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**8. Retirement Plans (continued)**

Employers' payroll covered under the plans

	June 30, 2012	June 30, 2011	June 30, 2010
<u>Payroll covered under plans:</u>			
County-MD retirement and pension \$	1,487,791	\$ 1,477,935	\$ 1,454,425
Board of Education	35,359,702	38,007,682	37,664,864
Library	689,058	729,425	861,495
<u>Pension contribution:</u>			
County:			
MD retirement and pension	466,354	437,438	447,578
Percentage of ARC contributed	100%	100%	100%
Board of Education:			
On behalf by state	4,865,665	4,903,330	4,449,995
By Board	712,603	727,518	602,357
Percentage of ARC contributed	100%	86%	84%
Library:			
On behalf by state	122,498	139,375	128,403
Percentage of ARC contributed	100%	86%	84%

Pension contributions made by the State of Maryland, on behalf of the County, the Board of Education and the Library are recognized as both revenue and expenditure.

Deferred Compensation Plans

Certain appointed officials participate in a defined contribution deferred compensation plan whereby the County contributes from 5% to 12% of salary to an account in the name of the participating employee. In addition, the employee may contribute certain amounts to his account under the plan subject to certain limitations.

Total contributions to this plan by the County were \$41,486 for the year ended June 30, 2012.

In addition, the County maintains a qualified retirement plan under Internal Revenue Code Section 457. This plan allows merit employees to make contributions toward retirement. The County made contributions of \$37,321 to this plan for the year ended June 30, 2012.

The County has a contract with a retirement company under which the company manages and administers the plans, serves as trustee to the underlying trust and advises the participants. Contributions (employer and employee) are invested as selected by the employees. A separate account is maintained for each participant.



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9. **Other postemployment benefits**

Caroline County

Plan Description

The Caroline County Postemployment Benefits Trust Fund (the "Plan") is a single-employer defined benefit healthcare plan administered by the County. The Plan provides healthcare benefits to eligible retirees and their surviving spouses and dependents. Chapter 49 of the Code of Public Laws of Caroline County provides the authority to establish and amend benefit plans. Eligible participants include former employees of the County, and/or their surviving spouse and dependents, with at least 20 years of service with the County, who are eligible for and receiving pension benefits through the County's pension plan. Employees retiring with State or other pension plans are ineligible. Under the terms of the Plan, the County pays the cost of an individual membership for Medicare supplementary insurance coverage. Participants in the Plan are responsible for paying all of their health care costs that exceed the amount of the County's contribution. As of July 1, 2011, the date of the last actuarial valuation, approximately 41 retirees and their beneficiaries were receiving benefits, and an estimated 173 active employees are potentially eligible to receive future benefits. The Plan does not issue a separate audited GAAP-basis postemployment benefit plan report.

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by the County Commissioners. Effective January, 2009, the County created the "Other Postemployment Benefits Trust" (the "Trust") in order to arrange for the establishment of a reserve to pay promised future healthcare benefits for employee services that have already occurred. The County intends the contributions to the Trust will qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB 45 and that the Trust will qualify as a "trust or equivalent arrangement" within the meaning of GASB 43 and 45. The County pays for the current cost of coverage on a pay as you go basis, from the Retiree Health Care Fund. For the year ended June 30, 2012, the County paid for coverage for 41 retirees at a total cost of \$247,720. The County made no contributions to the Trust during the year ended June 30, 2012.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The County pays postemployment health insurance benefits (normal cost) from the Retiree Health Care Fund, not from the Trust.



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**9. Other postemployment benefits (continued)**

Caroline County (continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution (ARC)	\$ 475,000
Interest on net OPEB obligation	(169,000)
Adjustment to annual required contribution	212,000
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Annual OPEB cost	518,000
Contributions - pay as you go	(247,720)
Contributions - trust	-
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Decrease in net OPEB prepaid	270,280
Net OPEB obligation/(prepaid) at beginning of year	(2,817,611)
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Net OPEB obligation/(prepaid) at end of year	\$ (2,547,331)
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The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation/ (Prepaid)
2010	\$ 540,830	42.32%	\$ (2,960,687)
2011	\$ 509,807	71.94%	\$ (2,817,611)
2012	\$ 518,000	47.82%	\$ (2,547,331)

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$7,115,000, and the actuarial value of assets was \$4,036,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,079,000. The covered payroll (annual payroll of active employees covered by the plan) was \$7,060,145, and the ratio of the UAAL to the covered payroll was 43.61 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**9. Other postemployment benefits (continued)**

Caroline County (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the entry age normal cost, level dollar actuarial method was used. The actuarial assumptions included a 6.0 percent investment rate of return. The projected annual healthcare cost trend rate is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after five years. The UAAL is being amortized over a closed period of 24 years from July 1, 2011.

Board of Education of Caroline County

Plan Description

The Caroline County Public Schools Post-Retirement Medical and Life Insurance Benefits Plan (the "Plan") is a single employer defined benefit healthcare plan administered by the Board. The Plan provides medical, prescription drug, dental and vision benefits to eligible retirees, their spouses and eligible dependents. All classes of employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are age 55 with 15 years of service, age 62 with 5 years of service, and 63 with 4 years of service, age 64 with 3 years of service, age 65 with 2 years of service, or 30 years of service regardless of age. In addition, eligible spouses and dependents desiring coverage through the eligible retiree's plan must be enrolled in the Plan immediately prior to the retiree's effective date of retirement. As of November 1, 2011, the census date of the last actuarial valuation, approximately 307 retirees and their beneficiaries were receiving benefits, and an estimated 632 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board provides dental and basic major medical insurance (Medicare supplemental program for those over 65) for its retired employees. It is the Board's policy to pay 90% of the cost of such benefits for eligible retirees and to make such coverage available on a 100% reimbursement basis for dependents, spouses and non-eligible retirees. Eligible retirees are teachers who are under 65 years old and retired after July 1, 1977 with five years service in Caroline County and classified employees who are under 65 years old and retired after July 1, 1981 with five years service in Caroline County. At age 65, eligible retirees with at least fifteen



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9. **Other postemployment benefits (continued)**

Board of Education of Caroline County (continued)

Funding Policy (continued)

years of service will receive free Medicare Supplementary Program coverage, up to the dollar amount of the current individual insurance allowance. The Board pays for the cost of these benefits on a pay as you go basis. For the year ended June 30, 2012, the Board paid for coverage of 297 retirees at a total cost to the Board of \$1,590,514.

In May 2009, the Board created the Retiree Benefit Trust of the Board of Education of Caroline County (the "Trust") in order to arrange for the establishment of a reserve to pay promised future health and welfare benefits for employee services that have already occurred. The Board intends the contributions to the Trust will qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement Number 45 and that the Trust will qualify as a "trust or equivalent arrangement" within the meaning of GASB Statements 43 and 45.

Contributions by the Board are solely dependent on the governmental entities that provide funding for the Board. Employee and retiree contributions are not permitted. The Chief Operating Officer and the Comptroller are the trustees of the Trust with final authority in all matters pertaining to the Trust.

In May 2009, the Board entered into an agreement with the Maryland Association of Boards of Education (MABE), together with certain member Boards of Education in Maryland, to establish the MABE Pooled OPEB Investment Trust (MABE Pool) in order to pool assets of the member Boards of Education for investment purposes only. Each member of the MABE Pool is required to designate a member Trustee who is a trustee of the member trust. The member trustee of the MABE Pool shall ensure that the MABE Pool keeps such records as are necessary in order to maintain a separation of the assets of the Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in the respective Financial Report using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. The Pool issues a publicly available audited report. The report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, MD 21401.

The Trust prohibits any part of the Trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The Trust provides that in no event will the assets of the Trust be transferred to any entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.



THE COUNTY COMMISSIONERS OF CAROLINE COUNTY  
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**9. Other postemployment benefits (continued)**

Board of Education of Caroline County (continued)

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other postemployment benefits (OPEB) cost is calculated based on the Annual Required Contributions (ARC), an amount actuarially determined within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus any unfunded liability amortized over a period not to exceed thirty years. The net OPEB obligation at the beginning of the fiscal year is \$12,919,609. The Board pays post retirement medical benefits (normal cost) from the General Fund, not from the Trust.

The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Board's net OPEB obligation:

Annual required contribution (ARC)	\$ 6,419,000
Adjustment to annual required contribution	(12,000)
Annual OPEB cost	6,407,000
Payments to retirees from general fund	(1,550,514)
Increase in net OPEB obligation	4,856,486
Net OPEB obligation at beginning of year	12,919,609
Net OPEB obligation at end of year	\$ 17,776,095

The Board's OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2010	\$ 6,032,000	24.63%	\$ 8,726,415
2011	\$ 6,032,000	30.48%	\$12,919,609
2012	\$ 6,407,000	24.20%	\$17,776,095

Funding Status and Funding Progress

As of November 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$79 million with \$279,000 in actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$78.8 million. The annual payroll of active employees covered by the Plan was \$35 million and the ratio of the UAAL to covered payroll was 44.9%. As of June 30, 2012, there were \$607 thousand in net assets.

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9. **Other postemployment benefits (continued)**

Board of Education of Caroline County (continued)

Funding Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designated to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of net assets, consistent with the long-term perspective of the calculations.

In the November 1, 2011 actuarial valuation, the cost method used was the projected unit credit, with linear proration to decrement attribution. The actuarial assumptions included a 4% investment return per annum. The projected annual healthcare cost trend rate is 7% initially, reduced by decrements to an ultimate rate of 3.8%. The UAAL is being amortized over twenty-seven years based on a level percentage of projected payrolls.

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**10. Fiduciary segment information**

Following are a combining Statement of Net Assets and Statement of Changes in Net Assets for all County administered employee benefit plans:

	Employee Benefit Trusts				
	Employees' Pension Plan	LOSAP	OPEB Trust	Retiree Health Care	Totals
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 415,698	\$ 525,924	\$ 42,865	\$ 29,260	\$ 1,013,747
Investments at fair value:					
Fixed income	6,457,964	-	2,976,084	-	9,434,048
Equity funds	7,923,022	-	1,061,979	-	8,985,001
Total investments at fair value	14,380,986	-	4,038,063	-	18,419,049
<b>Total assets</b>	<b>14,796,684</b>	<b>525,924</b>	<b>4,080,928</b>	<b>29,260</b>	<b>19,432,796</b>
<b>LIABILITIES:</b>					
Accounts payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to participants	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS:</b>					
Held in trust for participants	\$ 14,796,684	\$ 525,924	\$ 4,080,928	\$ 29,260	\$ 19,432,796
<b>Additions:</b>					
Contributions:					
Plan sponsor	\$ 875,000	\$ -	\$ -	\$ 127,439	\$ 1,002,439
Employee	-	-	-	50,151	50,151
Net realized gain on sale of securities	-	-	96,976	-	96,976
Interest, dividends and gains	549,719	5,608	142,682	81	698,090
<b>Total additions</b>	<b>1,424,719</b>	<b>5,608</b>	<b>239,658</b>	<b>177,671</b>	<b>1,847,656</b>
<b>Deductions:</b>					
Benefits paid	902,003	105,502	-	163,756	1,171,261
Transfers out	-	(110,000)	211,938	-	101,938
Administrative fees	56,627	-	12,342	33,456	102,425
Unrealized depreciation in asset value	546,370	-	(29,520)	-	516,850
<b>Total deductions</b>	<b>1,505,000</b>	<b>(4,498)</b>	<b>194,760</b>	<b>197,212</b>	<b>1,892,474</b>
<b>Change in net assets</b>	<b>(80,281)</b>	<b>10,106</b>	<b>44,898</b>	<b>(19,541)</b>	<b>(44,818)</b>
<b>Net assets, beginning of year</b>	<b>14,876,965</b>	<b>515,818</b>	<b>4,036,030</b>	<b>48,801</b>	<b>19,477,614</b>
<b>Net assets, end of year</b>	<b>\$ 14,796,684</b>	<b>\$ 525,924</b>	<b>\$ 4,080,928</b>	<b>\$ 29,260</b>	<b>\$ 19,432,796</b>



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11. Leases

Excluding Board of Education

The County has several operating leases for office space, office equipment and site rental. Lease payments for the fiscal year ended June 30, 2012 totaled \$97,920. These leases expire at various dates through 2017.

At June 30, 2012, the County has contractual agreements requiring the following annual rental payments:

Fiscal Year Ending June 30

2013	\$ 82,217
2014	56,724
2015	38,953
2016	11,916
2017	3,507
	<hr/>
	\$ 193,317

The County has entered into a lease with the Maryland Rural Development Corporation for building space in Greensboro, Maryland. The property is being used by the Library for its North County branch. This lease requires monthly payments beginning April 1, 1996 of \$1,142 until March 31, 2025. The Library will pay these amounts from funds appropriated to it from the County. The lease may be renewed at expiration with no obligation for future rent. Total lease payments paid during the year ended June 30, 2012 were \$13,704.

Future minimum lease payments over the next five years are as follows:

Fiscal Year Ending June 30

2013	\$ 13,704
2014	13,704
2015	13,704
2016	13,704
2017	13,704

THE COUNTY COMMISSIONERS OF CAROLINE COUNTY  
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**11. Leases (continued)**

Board of Education

The Board has entered into non-cancelable leases which transfer ownership at the end of the lease. Thus, the Board has recorded the lease obligations and the related assets in the appropriate funds.

Capital lease obligations at June 30, 2012 consist of the following:

Building lease, bank, non-cancelable unless funds are not appropriated; interest at 5.1%; payable in annual installments of \$80,924, including interest through 2018	\$ 409,437
Energy equipment, bank, interest at 4.78%; payable in semiannual installments of \$47,080, including interest through 2017	450,702
Vehicle lease, interest at 5%; payable in semiannual installments of \$38,289, including interest through 2012	37,453
Vehicle lease, interest at 6.35%; payable in monthly installments of \$876 through July 2011 and \$729 through July 2012, including interest through 2012	725
Vehicle lease, interest at 6.4%; payable in monthly installments of \$803 through August 2012 and \$1,114 through August 2013, including interest through 2012	13,645
Energy equipment, bank, interest at 3.816%; payable in annual installments ranging from approximately \$42,000 to \$470,000 through October 2025	2,841,000
	<u>\$ 3,752,962</u>



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**11. Leases (continued)**

Board of Education

Future minimum lease payments under these capital leases are as follows:

<u>Fiscal Year Ending June 30</u>	
2013	\$ 436,271
2014	395,819
2015	422,257
2016	434,996
2017	445,516
2018 - 2022	2,001,999
2023 - 2027	596,192
	<hr/> 4,733,050
Less amounts representing interest	980,088
Present value of net minimum lease payments	<hr/> \$ 3,752,962 <hr/>

Interest expense on the above capital leases was approximately \$171,700 for the year ended June 30, 2012.

The following is a summary of the changes in capital leases for the year ended June 30, 2012:

	<u>July 01, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2012</u>
Capital leases (i)	\$ 4,227,928	\$ -	\$ 474,966	\$ 3,752,962

(i) - On the government wide statements, beginning net assets and beginning capital leases have been restated by \$500,000.

The cost of items acquired under capital lease arrangements, as included in capital assets and construction in progress, totaled \$5,899,349 and the related accumulated depreciation was \$915,791 at June 30, 2012.

The Board leases administrative copy machines and computer equipment over a five-year term. These leases are classified as operating leases.

Approximate future minimum lease commitments are as follows:

<u>Fiscal Year Ending June 30</u>	
2013	\$ 311,000
2014	216,000
2015	204,000
2016	100,000
2017	42,000
2018	10,000

Rent expense under these leases totaled approximately \$247,000 for the year ended June 30, 2012.

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**12. Risk management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has joined the Local Government Insurance Trust (LGIT) to handle potential losses. LGIT is a consortium of Maryland local governments, created to provide insurance coverage and services to Maryland local government. The County continues to carry commercial insurance for all other risks of loss, including worker's compensation and employees' health and accident insurance. The County purchases health insurance from a provider through a modified retrospective rating arrangement agreement. The County is a member of the Eastern Shore of Maryland Educational Consortium Health Insurance Alliance (the Alliance), a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that the Alliance be self-sustaining through member premiums. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. Callable deficits, which are paid to the Alliance to cover potential shortfalls, are 8% of total premiums. Currently, the Alliance keeps on hand 16% as a recommended conservative reserve. All funds held by the Alliance are restricted to being used only for health care expenses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Subscribers of coverage by LGIT share in the risk among participants of the pools. As a result, the County's annual premium requirements will be affected by the loss experience of the various insurance pools in which it participates. The County may be required to make additional assessments from time to time. These amounts would be recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

**13. Landfill closure and postclosure care costs**

The County has a 24.72% financial interest in Mid-Shore Regional Solid Waste Facility, which is owned and operated by Maryland Environmental Service (MES). The Landfills are located on the eastern shore and is shared by four counties. Under the Waste Disposal Service Agreement between MES and the County, in the event expenditures should exceed revenues, the County is obligated to cover the deficiency in proportion to its financial interest, however, to date additional funding from the County has not been required nor does management anticipate it.

In December 2010 the Mid-shore I landfill located in Talbot County accepted its last trash and in January 2011 the Mid-shore II landfill was opened for commercial business. As of June 30, 2012, total closure and post closure care costs were estimated at approximately \$23.5 million, with approximately \$5.8 million attributable to the County. It is expected that these costs will be funded from future revenues. MES has accrued and reported as a long-term liability at June 30, 2012, a portion of these costs, \$9.6 million, determined by the estimated useful life of the Landfills.



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**13. Landfill closure and postclosure care costs (continued)**

MES has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2011. MES expects to satisfy these requirements as of June 30, 2012 using the same criteria.

Due to inflation and changes in technology, laws, and regulations, estimated closure and post closure care costs may change in the future. Financial Statements of the Landfill can be obtained from MES located at 259 Najoles Road, Millersville, MD 21108.

**14. Commitments and contingencies**

Legal actions

There are various claims and suits pending against the County that arise in the normal course of the County's activities. In the opinion of legal counsel and management, the ultimate disposition of these various claims and suits will have no material adverse effect on the financial position of the County.

Federal and state funding

The County receives a substantial amount of federal and state funding. A significant reduction in the current level of funding, if it were to occur, may have an effect on the County's programs and services.

Contingent liability

The County has guaranteed a mortgage made by the Caroline County Humane Society, Inc. In the event of a default by the Humane Society in the timely payment of its obligations under the mortgage, the County has agreed to make such payments as may be due following a notice of default to the County.

**15. Required fund disclosures**

The Commissary Account Fund had expenditures exceed revenues by \$22,484 for the year ended June 30, 2012 and ended the year with an ending fund balance deficit of \$5,433.